

Message Text

SECRET

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ACTION SS-25

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S E C R E T TOKYO 14808

EXDIS

EO 11652: GDS
TAGS: ECON, JA, US
SUBJECT: PRIME MINISTER'S COMMENTS ON ECONOMIC SITUATION

1. AFTER I HAD FINISHED MY PRESENTATION TO PRIME MINISTER ON MIDDLE EAST SUMMIT AND OTHER MATTERS AFTERNOON OF AUGUST 16, HE SAID THAT HE WOULD LIKE TO SKETCH OUT FOR ME THE "POLITICAL SCHEDULE" AHEAD FOR THE FUKUDA CABINET IN THE NEXT FEW MONTHS.
2. HE BEGAN BY SAYING HE HAD COMMITTED HIMSELF AT BONN TO REDUCE JAPAN'S CURRENT ACCOUNT SURPLUS AND HE WAS TAKING EVERY MEASURE WITHIN HIS POWER TO TRY TO DO THIS. WITH RESPECT TO THE OVERALL JAPANESE ECONOMY, DOMESTIC DEMAND WAS EXPANDING SMOOTHLY. WITH RESPECT TO EXPORTS, HE HAD SAID HE WOULD KEEP VOLUMES AT OR BELOW LAST YEAR'S LEVELS. IN TERMS OF VOLUME, EXPORTS HAVE BEEN RUNNING ABOUT 2.8 PERCENT LOWER THAN LAST YEAR. HOWEVER, IN TERMS OF VALUE, BECAUSE OF THE INFLATION AND YEN APPRECIATION, EXPORTS WERE UP 21 PERCENT. LOOKING AHEAD AT THE LATTER HALF OF THE YEAR, HE EXPECTED THE DOMESTIC SIDE OF THE ECONOMY TO CONTINUE TO EXPAND SMOOTHLY, AND HE FELT EXPORTS WOULD BE SUBSTANTIALLY REDUCED OVER LAST YEAR--PROBABLY MORE THAN 2.8 PERCENT. REDUCTION IN EXPORTS WOULD, HOWEVER,

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HAVE AN ADVERSE EFFECT ON GROWTH AND THE PROBLEM BEFORE HIM AND HIS CABINET NOW WAS TO DETERMINE WHAT AND HOW MUCH SHOULD BE DONE TO CLOSE THE GAP. THEY WERE NOW STUDYING MEASURES TO DO THIS AND THE CABINET WOULD MAKE A DECISION WITH RESPECT TO A SUPPLEMENTARY BUDGET SEPTEMBER 2. FOLLOWING THAT, AFTER THE NECESSARY PREPARATION OF THE SUPPLEMENTARY BUDGET, AN EXTRAORDINARY

SESSION OF THE DIET WOULD BE CONVENED TO CONSIDER IT
AND ALSO TO RATIFY THE RECENTLY CONCLUDED JAPAN-CHINA
PFT.

3. FUKUDA CONTINUED THAT LOOKING AT THE INTERNATIONAL
ECONOMIC SITUATION HE FELT INCREASING CONCERN OVER
DEVELOPMENTS THAT WERE TAKING PLACE AND SAID THAT HE
BELIEVED, BASED ON HIS DISCUSSIONS AT BONN, THAT THE
PRESIDENT SHARED HIS CONCERN. HE WAS PARTICULARLY
WORRIED ABOUT THE DECLINING VALUE OF THE DOLLAR. AS
A KEY CURRENCY, IF THE DOLLAR'S CREDIBILITY WERE TO BE
LOST, IT WOULD BECOME VIRTUALLY IMPOSSIBLE FOR
OTHER ECONOMIES TO MAINTAIN ORDERLY AND STABLE
MANAGEMENT. FUKUDA SAID THAT HE WAS ANXIOUSLY AWAITING
THE RETURN OF FINANCE MINISTRY ADVISER MATSUKAWA, WHOM
HE HAD CHARGED TO EXPLORE THAT SITUATION WITH HIS
UNITED STATES COUNTERPARTS.

4. I REPLIED THAT I TOO WAS CONCERNED. I NOTED THAT
DESPITE THE COMMITMENTS THAT HAD BEEN MADE DURING THE
STRAUSS-USHIBA TALKS DURING JANUARY AND REPEATED BY
THE PRESIDENT AT THE BONN SUMMIT I WAS STILL DUBIOUS
WHEN AND WHAT KIND OF AN ENERGY BILL COULD BE GOTTEN
THROUGH THE CONGRESS. CERTAINLY THE ADMINISTRATION
HAD TRIED EVERYTHING TO ACHIEVE THIS BUT IT WAS A
HIGHLY POLITICAL AND DIFFICULT MEASURE TO PUT THROUGH.
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I ALSO STRESSED THAT I WAS WORRIED ABOUT THE NUMEROUS
RUMORS THAT OPEC WAS CONSIDERING SHIFTING TO A "BASKET
OF CURRENCIES" FOR PRICING OIL EXPORTS RATHER THAN
USING THE DOLLAR. THIS OBVIOUSLY WOULD CAUSE A GREAT
DEAL OF DISLOCATION IF IT WERE TO COME TO PASS.

5. THE PRIME MINISTER CLOSED MEETING BY ASKING ME TO
REPORT THE CONCERN WHICH HE HAD EXPRESSED OVER THE
DOLLAR'S DECLINE AND I OF COURSE SAID THAT I WOULD
DO SO. I HAVE NO DOUBT THAT HIS CONCERN IS REAL AND
THAT HE FEELS STRONGLY ON THIS MATTER. MANSFIELD

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